

Independent Auditors' Report and Annual Financial Statements

Memorandum from the Deputy Inspector General for Audit Services
Independent Auditors' Report on the Consolidated Financial Statements
Annual Financial Statements

Memorandum from the Deputy Inspector General for Audit Services



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, DC 20201

TO: See Distribution List

FROM: *David M. Long*
Dennis J. Duquett

FEB 10 2003

Deputy Inspector General
for Audit ServicesSUBJECT: Report on the Financial Statement Audit of the Centers for Disease
Control and Prevention and Agency for Toxic Substances and Disease
Registry for Fiscal Year 2002 (A-17-02-00010)

The attached final report presents the results of the audit of Fiscal Year's (FY) 2002 financial statements of the Centers for Disease Control and Prevention and Agency for Toxic Substances and Disease Registry (CDC/ATSDR). We contracted with KPMG LLP, an independent certified public accounting firm, to perform the CDC/ATSDR audit that supports the departmentwide audit by the Office of Inspector General in accordance with the Government Management Reform Act of 1994.

Management is responsible for: (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of 31 U.S.C. 3512 (Federal Managers' Financial Integrity Act) are met; and (3) complying with applicable laws and regulations, including ensuring that CDC/ATSDR's financial management systems substantially comply with Federal Financial Management Improvement Act of 1996 (FFMIA) requirements.

The audit objectives were to determine whether: (1) the CDC/ATSDR consolidating balance sheet as of September 30, 2002, and the related consolidated totals on the accompanying consolidating statements of net cost, changes in net position and financing, and the combined statement of budgetary resources for the FY then ended, were fairly presented in all material respects; (2) CDC/ATSDR internal controls provided reasonable assurance that transactions were properly recorded and accounted for to permit the preparation of reliable financial statements; and (3) CDC/ATSDR complied with laws and regulations that could have a direct and material effect on the financial statements.

The KPMG also audited the adjustment, described in note 18 to the CDC/ATSDR financial statements that was applied to restate the consolidated totals on the accompanying consolidating balance sheet as of September 30, 2001. The adjustment related to a reclassification of a prior year lease from an operating to a capital lease, effective October 1, 2000. This adjustment increased general property, plant and equipment, total assets, other intragovernmental

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liabilities, and total liabilities on the September 30, 2001 consolidated balance sheet by \$47 million and had no significant affect on net costs or net position as of and for the FYs ended September 30, 2001 or 2002.

We evaluated the nature, timing, and extent of the work, monitored progress throughout the audit, reviewed the documentation of KPMG, met with partners and staff members, evaluated the key judgments, met with officials of CDC/ATSDR, reviewed independent tests of the accounting records, and performed other procedures we deemed appropriate in the circumstances. We conducted our work in accordance with auditing standards generally accepted in the United States.

The consolidated totals on the accompanying consolidating balance sheet as of September 30, 2001 and the related consolidated totals on the accompanying consolidating statement of net cost for the year then ended were audited by other auditors, whose report dated January 11, 2002, expressed an unqualified opinion on those financial statements, before the restatement described in note 18 to the consolidated financial statements. We performed similar oversight procedures in FY 2001 and concurred with the auditors' opinion.

We concur with KPMG's report that indicated the financial statements referred to above present fairly, in all material respects, the financial position of CDC/ATSDR as of September 30, 2002, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended in conformity with accounting principles generally accepted in the United States. In addition, the restatement to FY 2001 was deemed appropriate and properly applied. The CDC/ATSDR is commended for sustaining its unqualified opinion.

Furthermore, the report on internal controls noted no weaknesses considered to be material under standards established by the American Institute of Certified Public Accountants. The report did note, however, certain matters relating to the internal controls over preparation, analysis, and monitoring of financial information, information systems environment, and grants monitoring process, which were considered to be reportable conditions.

Exclusive of the FFMIA, there was no reportable noncompliance with laws and regulations tested. The CDC/ATSDR's financial management systems, in some instances, did not substantially comply with certain requirements referred to in the FFMIA in the area of the use of United States Government General Ledger at the transaction level.

We would appreciate your views and information of the status of any action taken or contemplated on the recommendations within the next 60 days. If you have any questions or comments about this report, please do not hesitate to call me or David M. Long, Assistant Inspector General for Financial Management and Regional Operations, at (202) 619-1157 or through E-mail at dlong@oig.hhs.gov. Please refer to report number A-17-02-00010 in all correspondence relating to this report.



201 M Street NW
Washington, DC 20036

Independent Auditors' Report on the Consolidated Financial Statements

Inspector General of the U.S. Department of Health and Human Services and Director of the Centers for Disease Control and Prevention and Agency for Toxic Substances and Disease Registry:

We have audited the consolidated totals on the accompanying consolidating balance sheet of the Centers for Disease Control and Prevention and Agency for Toxic Substances and Disease Registry (CDC/ATSDR) as of September 30, 2002, and the related consolidated totals on the accompanying consolidating statements of net cost and changes in net position, combined statement of budgetary resources, and the consolidated statement of financing for the year then ended (hereinafter referred to as consolidated financial statements). These consolidated financial statements are the responsibility of the CDC/ATSDR's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

The consolidated totals on the accompanying consolidating balance sheet of the CDC/ATSDR as of September 30, 2001, and the related consolidated totals on the accompanying consolidating statement of net costs for the year then ended, were audited by other auditors whose report dated January 11, 2002, expressed an unqualified opinion on those statements, before the restatement described in Note 18 to the consolidated financial statements.

We also audited the adjustment, described in Note 18 that was applied to restate the consolidated totals on the accompanying consolidating balance sheet of the CDC/ATSDR as of September 30, 2001. In our opinion, such adjustment was appropriate and has been properly applied.

We conducted our fiscal 2002 audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An



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audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the fiscal year 2002 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the CDC/ATSDR as of September 30, 2002, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18 to the consolidated financial statements, the CDC/ATSDR changed its accounting for biological products inventory, trust fund receipts, and other matters, effective October 1, 2001 and restated the consolidated totals on the consolidating balance sheet as of September 30, 2001.

The information in the Management's Discussion and Analysis, Interpretation of Financial Information, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the consolidated financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. We did not audit this information and, accordingly, we express no opinion on it. However, we were unable to assess control risk relevant to the CDC/ATSDR's intra-governmental transactions and balances, as required by OMB Bulletin No. 01-02, because reconciliations were not performed with certain federal trading partners as required by OMB Bulletin No. 01-09.

In accordance with *Government Auditing Standards*, we have also issued reports dated December 10, 2002, on our consideration of the CDC/ATSDR's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

December 10, 2002

Centers for Disease Control and Prevention and
Agency for Toxic Substances and Disease Registry**Consolidating Balance Sheet**

As of September 30, 2002 and 2001 — (dollars in thousands)

| | Health | Natural Resources and Environment | Combined Totals | Intra-OPDIV Eliminations | FY 2002 Consolidated Totals | FY 2001 Consolidated Totals (Restated) |
|--|--------------------|---|--------------------|-----------------------------|-----------------------------------|---|
| <i>Assets</i> | | | | | | |
| Intragovernmental | | | | | | |
| Fund balance with Treasury (Note 3) | \$4,587,778 | \$19,225 | \$4,607,003 | \$ — | \$4,607,003 | \$3,653,248 |
| Accounts receivable, net (Note 5) | 83,211 | — | 83,211 | (596) | 82,615 | 39,951 |
| Other assets (Note 9) | 10,232 | — | 10,232 | — | 10,232 | 4,849 |
| Total intragovernmental assets | 4,681,221 | 19,225 | 4,700,446 | (596) | 4,699,850 | 3,698,048 |
| Accounts receivable, net (Note 5) | 7,746 | 2 | 7,748 | — | 7,748 | 9,847 |
| Cash and other monetary assets (Note 4) | 113 | — | 113 | — | 113 | 117 |
| Inventory and related property (Note 7) | 29,555 | — | 29,555 | — | 29,555 | 26,587 |
| General property, plant, and equipment (Notes 8 and 18) | 359,617 | 693 | 360,310 | — | 360,310 | 270,831 |
| Other assets (Note 9) | 1,550 | — | 1,550 | — | 1,550 | 2,043 |
| Total assets | \$5,079,802 | \$19,920 | \$5,099,722 | (\$596) | \$5,099,126 | \$4,007,473 |
| <i>Liabilities (Note 10)</i> | | | | | | |
| Intragovernmental | | | | | | |
| Accounts payable | \$ 427 | \$ 171 | \$ 598 | (\$596) | \$ 2 | \$ 40 |
| Accrued payroll and benefits (Note 13) | 4,917 | — | 4,917 | — | 4,917 | 7,367 |
| Other liabilities (Notes 14 and 18) | 127,563 | 9 | 127,572 | — | 127,572 | 106,849 |
| Total intragovernmental liabilities | 132,907 | 180 | 133,087 | (596) | 132,491 | 114,256 |
| Accounts payable | 258,008 | 43 | 258,051 | — | 258,051 | 156,282 |
| Environment and disposal costs (Note 12) | 3,385 | — | 3,385 | — | 3,385 | — |
| Accrued grant liability (Note 6) | 226,735 | 3,010 | 229,745 | — | 229,745 | 149,151 |
| Federal employees' and veterans' benefits (Note 11) | 17,077 | 962 | 18,039 | — | 18,039 | 18,752 |
| Accrued payroll and benefits (Note 13) | 96,766 | 43 | 96,809 | — | 96,809 | 81,342 |
| Other liabilities (Note 14) | 35,974 | 559 | 36,533 | — | 36,533 | 35,488 |
| Total liabilities | 770,852 | 4,797 | 775,649 | (596) | 775,053 | 555,271 |
| <i>Net Position</i> | | | | | | |
| Unexpended appropriations | 4,037,588 | — | 4,037,588 | — | 4,037,588 | 3,283,304 |
| Cumulative results of operations | 271,362 | 15,123 | 286,485 | — | 286,485 | 168,898 |
| Total net position | 4,308,950 | 15,123 | 4,324,073 | — | 4,324,073 | 3,452,202 |
| Total liabilities and net position | \$5,079,802 | \$19,920 | \$5,099,722 | (\$596) | \$5,099,126 | \$4,007,473 |

The accompanying notes are an integral part of these financial statements.

Centers for Disease Control and Prevention and
Agency for Toxic Substances and Disease Registry**Consolidating Statement of Net Cost**

For the years ended September 30, 2002 and 2001 — (dollars in thousands)

| Net program activity costs | Health | Natural Resources and Environment | FY 2002 Consolidated Totals | FY 2001 Consolidated Totals |
|--|--------------------|--------------------------------------|-----------------------------------|-----------------------------------|
| <i>GPRA Programs:</i> | | | | |
| Birth defects | \$ 33,388 | \$ — | \$ 33,388 | \$ — |
| Chronic disease prevention | 626,139 | — | 626,139 | 622,781 |
| Environmental and occupational health | 203,754 | 11,404 | 215,158 | 481,651 |
| Environmental health | 122,497 | — | 122,497 | — |
| Epidemic services | 129,577 | — | 129,577 | 114,656 |
| Health statistics | 96,770 | — | 96,770 | 62,460 |
| HIV/AIDS, STDs, and TB | 364,630 | — | 364,630 | — |
| Immunization | 1,344,526 | — | 1,344,526 | 1,254,758 |
| Infectious diseases | 1,101,764 | — | 1,101,764 | 1,280,868 |
| Injury prevention and control | 107,854 | — | 107,854 | 105,681 |
| Occupational safety and health | 202,439 | — | 202,439 | — |
| Prevention research | 11,618 | — | 11,618 | 15,535 |
| Preventive health and health services block grant | 160,221 | — | 160,221 | 87,397 |
| Public health improvement | 36,433 | — | 36,433 | — |
| Net cost of operations | \$4,541,610 | \$11,404 | \$4,553,014 | \$4,025,787 |

The accompanying notes are an integral part of these financial statements.

Centers for Disease Control and Prevention and
Agency for Toxic Substances and Disease Registry**Consolidating Statement of Changes in Net Position**

For the year ended September 30, 2002 — (dollars in thousands)

| | Health | | Natural Resources and Environment | | FY 2002 Consolidated Total | |
|---|--|--------------------------------------|--|--------------------------------------|--|------------------------------|
| | 2002 Cumulative Results of Operations | 2002 Unexpended Appropriations | 2002 Cumulative Results of Operations | 2002 Unexpended Appropriations | Cumulative Results of Operations | Unexpended Appropriations |
| Beginning balances, as previously reported | \$ 171,337 | \$ 3,226,958 | (\$ 2,439) | \$56,346 | \$ 168,898 | \$3,283,304 |
| Cumulative effect of changes in accounting (Note 18) | 22,290 | (4,791) | 28,966 | (56,346) | 51,256 | (61,137) |
| Beginning balances, as adjusted | 193,627 | 3,222,167 | 26,527 | — | 220,154 | 3,222,167 |
| Budgetary financing sources: | | | | | | |
| Appropriations received | | 4,306,151 | | — | | 4,306,151 |
| Appropriations transferred-in/out | | 1,017,535 | | — | | 1,017,535 |
| Other adjustments | — | (29,137) | — | — | — | (29,137) |
| Appropriations used | 4,479,128 | (4,479,128) | — | — | 4,479,128 | (4,479,128) |
| Nonexchange revenue | 4 | | — | | 4 | |
| Donations and forfeitures of cash and cash equivalents | 5,546 | | — | | 5,546 | |
| Transfers-in/out without reimbursement | 78,202 | | — | | 78,202 | |
| Other budgetary financing sources | — | | — | | — | |
| Other financing sources: | | | | | | |
| Donations and forfeitures of property | 688 | | — | | 688 | |
| Transfers-in/out without reimbursement | 87 | | — | | 87 | |
| Imputed financing from costs absorbed by others | 56,769 | | — | | 56,769 | |
| Other | (1,079) | | — | | (1,079) | |
| Total financing sources | 4,619,345 | 815,421 | — | — | 4,619,345 | 815,421 |
| Net cost of operations | 4,541,610 | | 11,404 | | 4,553,014 | |
| Ending balances | \$ 271,362 | \$ 4,037,588 | \$15,123 | \$ — | \$ 286,485 | \$4,037,588 |

The accompanying notes are an integral part of these financial statements.

Centers for Disease Control and Prevention and
Agency for Toxic Substances and Disease Registry**Combined Statement of Budgetary Resources**

For the year ended September 30, 2002 — (dollars in thousands)

| | |
|--|--------------------|
| Budgetary resources | |
| <i>Budgetary authority</i> | |
| Appropriations received | \$4,402,559 |
| Net transfer (+/-) | 1,017,535 |
| Unobligated balances: | |
| Beginning of period | 62,029 |
| Spending authority from offsetting collection: | |
| Earned | |
| Collected | 159,200 |
| Receivable from federal sources | 13,881 |
| Change in unfilled customer orders | |
| Advance received | (1,130) |
| Without advance from federal sources | 81,453 |
| Subtotal | 253,404 |
| Recoveries of prior year obligations | 30,359 |
| Permanently not available | (40,822) |
| Total budgetary resources | 5,725,064 |
| Status of budgetary resources | |
| Obligations incurred: | |
| Direct | 5,385,891 |
| Reimbursable | 253,389 |
| Subtotal | 5,639,280 |
| Unobligated balances: Available | |
| Apportioned | 73,697 |
| Exempt from apportionment | 2,586 |
| Unobligated balances not available | 9,501 |
| Total status of budgetary resources | 5,725,064 |
| Relationship of obligations to outlays | |
| Obligated balance, net— beginning of period | 3,571,092 |
| Obligated balance, net, end of period: | |
| Accounts receivable | (61,625) |
| Unfilled customer orders from federal sources | (176,644) |
| Undelivered orders | 4,411,051 |
| Accounts payable | 353,216 |
| Outlays | |
| Disbursements | 4,558,681 |
| Collections | (158,070) |
| Subtotal | 4,400,611 |
| Net outlays | \$4,400,611 |

The accompanying notes are an integral part of these statements.

Centers for Disease Control and Prevention and
Agency for Toxic Substances and Disease Registry**Consolidated Statement of Financing**

For the Year ended September 30, 2002 — (dollars in thousands)

Resources used to finance activities

Budgetary resources obligated

| | |
|---|-------------|
| Obligations incurred | \$5,639,280 |
| Less: Spending authority from offsetting collections and recoveries | (283,763) |
| Obligations net of offsetting collections and recoveries | 5,355,517 |
| Net obligations | 5,355,517 |

Other resources

| | |
|---|---------|
| Donations and forfeitures of property | 688 |
| Transfers in/out without reimbursement | 87 |
| Imputed financing from costs absorbed by others | 56,769 |
| Other nonbudgetary resources | (1,079) |
| Net nonbudgetary resources used to finance activities | 56,465 |

| | |
|---|------------------|
| Total resources used to finance activities | 5,411,982 |
|---|------------------|

Resources used to finance items not part of the net cost of operations

| | |
|--|-----------|
| Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided | 803,622 |
| Budgetary offsetting collections and receipts that do not affect net cost of operations: | |
| Other | (1,576) |
| Resources that finance the acquisition of assets | 92,774 |
| Total resources used to finance items not part of the net cost of operations | 894,820 |
| Total resources used to finance the net cost of operations | 4,517,162 |

Components of net cost of operations that will not require or generate resources in the current period

Components requiring or generating resources in future periods:

| | |
|---|-------|
| Increase in annual leave liability | 5,491 |
| Increase in environmental and disposal liability | 3,385 |
| Increase in exchange revenue receivable from the public | 313 |
| Other | (713) |

| | |
|--|-------|
| Total components of net cost of operations that will require or generate resources in future periods | 8,476 |
|--|-------|

Components not Requiring or generating resources:

| | |
|--|--------|
| Depreciation and amortization | 15,282 |
| Losses or (gains) from revaluation of assets and liabilities | 978 |
| Other | 11,116 |
| Total components of net cost of operations that will not require or generate resources | 27,376 |

| | |
|---|---------------|
| Total components of net cost of operations that will not require or generate resources in the current period | 35,852 |
|---|---------------|

| | |
|-------------------------------|--------------------|
| Net cost of operations | \$4,553,014 |
|-------------------------------|--------------------|

The accompanying notes are an integral part of these financial statements.